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Congress of the United States
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AUG 20 1993
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

92-266

July 28, 1993

The Honorable James H. Quello
Chairman
Federal Communications
Commission
1919 M St.
Washington, DC 20554

Dear Chairman Quello:

I have enclosed a copy of an analysis that I was recently given by Michael Turner, the President of Televista Communications, Inc., which is located in Huron Township, Michigan, and which offers cable television service to two other Townships in my Congressional District.

In his analysis, and in a subsequent meeting with members of my staff, Mr. Turner has expressed deep concerns regarding the impact of the Commission's competitive cable rate benchmarks on rural cable systems like Televista. As you can see from his analysis, Mr. Turner maintains that adhering to competitive cable benchmarks, or pursuing the Cost of Service alternative for the franchise jurisdictions his company serves, will have the effect of putting him out of business. It is my understanding that P.L. 102-385 gives the Commission the authority to address the issue of how these benchmarks might impact smaller rural systems like Televista.

I would appreciate it if you would address the concerns that Mr. Turner has outlined and reply to me in writing at your earliest possible convenience.

Thank you for your assistance.

With kind regards, I am

Sincerely yours,

William D. Ford

WILLIAM D. FORD
Member of Congress

WDF:cmd

Enclosure

cc: Michael Turner

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TELEVISTA COMMUNICATIONS, INC.

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AUG 20 1993

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

MEMORANDUM

Date: July 15, 1993

To: Interested Parties

From: Michael Turner
President

Re: Inapplicability of FCC Competitive Cable Rate Benchmarks to Rural Cable Systems

Televista Communications is a small family owned cable operator serving exclusively rural areas, with housing densities of approximately 30 homes per plant mile. Our two systems together serve 6100 customers. We serve areas that the large MSO's bordering our areas had consistently declined to serve.

We have analyzed the FCC Cable TV Rate Survey Database ("FCC Rate Database") to determine the average housing density in systems where competition was found to exist, and to determine how often competition exists in rural areas like the ones we serve.

A Summary of our findings is included with this document as Attachment A. We will provide a print-out of the entire analysis to interested parties.

<u>In a nutshell, the FCC Rate Database covers so few homes in rural areas</u> (areas of less than 40 homes per plant mile) <u>where competition exists, that the FCC Rate Database is statistically insufficient to support the imposition of the Benchmark Rates on systems with housing densities of less than 40 homes per plant mile.</u>

An old story comes to mind of the man who drowned while fording a river that had an average depth of only three feet -- he stepped in a hole where the average depth was of no consequence.

The same kind of problem arises when the FCC derives average rates from areas where competition exists -- virtually all such areas are densely populated -- and applies those average rates across the board to systems in both dense and rural areas.

<u>Only 65/100 of 1% of the homes in the FCC Rate Database are: 1) in areas of less than 40 homes per plant mile; and, 2) in areas where either Types B or C competition exist (moreover, only 17/100 of 1% meet the criteria at less than 30 homes per mile).</u>

Therefore, the FCC Rate Database and the Benchmark Rates derived from the Database should not apply to rural systems.

Our analysis excluded data for systems where the FCC Cable TV Rate Survey Database did not reflect the numbers of Homes Passed, Homes Subscribing, or Plant Miles, as those three variables are essential to housing density analysis.

Our analysis divided the FCC Rate Database into three housing density groups:

1) Systems of All Densities (including both high and low density systems)

2) Systems of Less than 40 Homes Per Mile

3) Systems of Less Than 30 Homes Per Mile

The analysis then looked at each of those housing density groups relative to types of competition shown in the FCC Rate Database.

This discussion will focus on Competition Types B and C, as most rural systems have penetration rates exceeding the 30% level that evidences Type A Competition.

Our analysis disclosed that systems of less than 40 homes per mile are statistically under-represented in the FCC Rate Database for Competition Types B and C. In the FCC Database:

1) In systems with Type A Competition, the average density is 98 homes per plant mile; in systems with Type B Competition, the average density is 64 homes per plant mile; and, in systems with Type C Competition, the average density is 62 homes per plant mile.

2) Type B or C Competition exist in a total of 53 systems, of all housing densities, (serving 847,364 homes -- 16.23% of the homes in the FCC Rate Database). This represents more than 1 out of every 6 homes in the FCC Rate Database.

3) 15.5% of all homes are in cable systems with housing densities of less than 40 homes per plant mile. This is also more than 1 out of every 6 homes in the FCC Rate Database.

4) <u>However, where housing density is less than 40 homes per plant mile, Type B or C Competition exist in only 7 small systems (serving 34,201 total homes -- 65/100 of 1% of the homes in the FCC Rate Database). This represents less than 1 out of every 150 homes in the FCC Rate Database.</u>

5) <u>Moreover, where housing density is less than 30 homes per plant mile, Type B or C Competition exist in only 2 small systems (serving 9,028 total homes -- 17/100 of 1% of the homes in the FCC Rate Database). This represents less than 1 out of every 550 homes in the FCC Rate Database.</u>

This all boils down to a self evident fact: Cable companies, MMDS providers, or Franchise Authorities almost never compete with cable systems in rural areas -- there are simply not enough homes in rural areas to support two competing systems.

The hard fact is, in rural areas, it is a stretch for even one company to cover its construction and operating costs, let alone for two companies to do so while effectively splitting the sparse subscriber base.

In such rural areas, the costs per subscriber are much higher than the costs per subscriber in areas of average density. It costs the same amount to build, power, and maintain a mile of cable whether 30 homes or 60 homes are passed in that mile. But in rural areas, those same costs must be spread over half (or fewer) the subscribers per mile.

Under the Benchmark formulae, many small systems, including ours, would be required to roll rates back. Such rate rollbacks cannot be sustained by small systems serving exclusively rural areas, often would put such systems in violation of bank covenants, and without significant infusions of capital would make it impossible to service debt.

Moreover, as the benchmark formulae require franchise by franchise analyses, many companies, including ours, would actually end up with different rates for each Franchises -- in our case six different franchises, each covering between 400 and 1500 subscribers.

As it now stands, because the Benchmark rates do not cover costs, many small companies, including ours, are forced to proceed on a

Cost of Service basis. However, the cost of service approach is extremely burdensome in and of itself.

First, a company must compile data and present Cost of Service proofs for the basic tier to each of the franchise jurisdictions it serves. Each cost of service showing will be different, and require separate preparation, as each franchise jurisdiction will have slightly different plant characteristics and costs.

Second, the company must make related showings to the FCC for the satellite tier -- again each one different and requiring separate preparation and proofs.

Finally, companies do not know what the Cost of Service process will be like, as the FCC has not yet released the Rules. The only indications from the Commission are that Cost of Service Showings will be costly, time consuming, difficult, will potentially require greater roll-backs than do the Benchmarks, and are discouraged.

This is simply not fair.

Most small operators could be viewed as good entrepreneurs, who risked substantial capital, became liable for extensive debts, and built cable systems in areas that larger companies had consistently declined to serve. Small operators did what Congress hoped the 1984 deregulation would do -- brought cable TV to sparsely populated rural areas.

And yet, small operators are now caught in a snare that Congressional representatives have publicly stated was intended for large MSO's. We are told that we must roll our rates back to levels that primarily large MSO's charge in areas (where competition exists) with housing density that is twice the density of the rural areas that we serve.

We are then told to prepare to make burdensome cost of service showings for many different franchise areas, serving small numbers of subscribers -- the same showing that a large company would make for an area serving 100,000 subscribers.

We do not believe that either Congress or the FCC intended to so impact small operators in sparse rural areas.

We respectfully suggest that the Federal Communications Commission should make findings and conclusions that:

1) Small cable companies, and companies serving areas with less than 40 homes per mile, do not have the efficiencies of scale or housing density of large MSO's.

2) The FCC Cable TV Rate Survey Database is statistically insufficient regarding Cable Systems serving areas with housing density of less than 40 homes per plant mile where Types B or C Competition exist to support imposition of Benchmark Rates on systems of less than 40 homes per mile.

3) Competition between cable systems, or similar multichannel providers does not exist in areas of housing density of less than 40 homes per mile with sufficient frequency to justify imposition of "Competitive Rates" on systems serving areas of less than 40 homes per mile.

4) For the above reasons, the Benchmark Rates should not apply to small systems or systems serving areas of less than 40 homes per mile.

5) Insofar as they should apply at all, the Benchmark and Cost of Service processes should apply on MSO-wide bases, not on franchise bases, wherever less than 10,000 subscribers are served in a Franchise area or in a component company. This will avoid the burden of preparing separate Benchmark and Cost of Service showings for very small franchise areas.

We hope this information and analysis will be of assistance in the development of fair and appropriate Regulations.

If you have any questions regarding the analysis we have done, would like a print-out of the entire analysis, or would like any further information, please call Michael Turner at (313) 753-3455.

Thank you for your time and consideration.

Attachment

ATTACHMENT A -- SUMMARY -- HOMES PER PLANT MILE BY COMPETITION TYPE
(from FCC Cable TV Rate Survey Database, excluding incomplete data)

COMPETITION TYPE	# OF SYSTEMS	HOMES PASSED	PLANT MILES	AVERAGE HOMES PER PLANT MILE (HPM)	% OF TOTAL HOMES
ALL RESPONSES					
ALL DENSITIES	369	5,220,133	88,904	59	100.00%
LESS THAN 40 HPM	133	554,615	27,321	20	10.62%
LESS THAN 30 HPM	84	254,615	18,865	13	4.88%
TYPE A COMPETITION					
ALL DENSITIES	64	885,979	9,052	98	16.97%
LESS THAN 40 HPM	28	49,661	1,649	30	.95%
LESS THAN 30 HPM	17	15,965	771	21	.31%
TYPE B COMPETITION					
ALL DENSITIES	38	662,845	10,342	64	12.70%
LESS THAN 40 HPM	6	25,173	748	34	.48%
LESS THAN 30 HPM	1*	1,472	89	17	.03%
TYPE C COMPETITION					
ALL DENSITIES	15	184,519	2,955	62	3.53%
LESS THAN 40 HPM	1	7,556	290	26	.14%
LESS THAN 30 HPM	1*	7,556	290	26	.14%
* duplicate					
NO COMPETITION					
ALL DENSITIES	251	3,485,623	66,488	52	66.77%
LESS THAN 40 HPM	97	471,058	24,567	19	9.02%
LESS THAN 30 HPM	64	228,455	17,648	13	4.38%